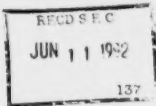


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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

11/10  
6/10  
192-2264

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended April 30, 1992  
Commission File Number 0-13907

PROCESSED BY  
13-13-V  
JUN 12 1992

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BIO-VASCULAR, INC.

1312

State of Incorporation: Minnesota  
I.R.S. Employer Identification No.: 41-1526554

Principal Executive Offices: 2670 Patton Road  
St. Paul, Minnesota 55113  
Telephone Number: (612) 631-3529

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X  
No \_\_\_\_\_

On May 28, 1992, there were 5,495,705 shares of the Registrant's \$.01 par value common stock outstanding.

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PART I. FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

BIO-VASCULAR, INC.  
BALANCE SHEETS

ASSETS

|                                                                                                  | April 30,<br><u>1992</u><br>(unaudited) | October 31,<br><u>1991</u> |
|--------------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------|
| Current Assets                                                                                   |                                         |                            |
| Cash and cash equivalents                                                                        | \$1,130,167                             | \$ 879,098                 |
| Marketable securities                                                                            | 2,610,260                               | 2,608,087                  |
| Accounts receivable, net of<br>allowances for doubtful accounts                                  | 762,007                                 | 657,269                    |
| Inventories                                                                                      |                                         |                            |
| Raw materials                                                                                    | 159,817                                 | 134,581                    |
| Work in process                                                                                  | 162,629                                 | 237,768                    |
| Finished goods                                                                                   | 515,205                                 | 389,106                    |
| Prepaid expenses and other<br>current assets                                                     | <u>131,273</u>                          | <u>133,957</u>             |
| Total Current Assets                                                                             | 5,471,358                               | 5,039,866                  |
| Fixed Assets                                                                                     |                                         |                            |
| Equipment, including capitalized<br>leases                                                       | 814,746                                 | 624,655                    |
| Accumulated depreciation                                                                         | <u>(293,951)</u>                        | <u>(240,109)</u>           |
| Net Fixed Assets                                                                                 | 520,795                                 | 384,546                    |
| Other Assets                                                                                     |                                         |                            |
| Intangibles, net of accumulated<br>amortization of \$536,088 for 1992,<br>and \$441,681 for 1991 | 1,243,720                               | 1,334,266                  |
| Other Assets                                                                                     | <u>18,182</u>                           | <u>18,182</u>              |
| Total Other Assets                                                                               | <u>1,261,902</u>                        | <u>1,352,448</u>           |
| TOTAL ASSETS                                                                                     | <u>\$7,254,055</u>                      | <u>\$6,776,860</u>         |

BIO-VASCULAR, INC.  
BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

|                                                                                                                                                                       | April 30,<br><u>1992</u><br>(unaudited) | October 31,<br><u>1991</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------|
| Current Liabilities                                                                                                                                                   |                                         |                            |
| Accounts payable                                                                                                                                                      | \$ 183,342                              | \$ 142,801                 |
| Accrued payroll liabilities                                                                                                                                           | 113,079                                 | 77,315                     |
| Accrued expenses                                                                                                                                                      | <u>113,012</u>                          | <u>68,473</u>              |
| Total Current Liabilities                                                                                                                                             | <u>407,433</u>                          | <u>288,589</u>             |
| Shareholders' Equity                                                                                                                                                  |                                         |                            |
| Common stock, \$.01 par value;<br>10,000,000 shares authorized;<br>shares issued and outstanding:<br>5,495,705 at April 30, 1992<br>and 5,432,276 at October 31, 1991 | 54,957                                  | 54,323                     |
| Additional paid-in capital                                                                                                                                            | 8,732,295                               | 8,655,326                  |
| Accumulated deficit                                                                                                                                                   | <u>(1,940,630)</u>                      | <u>(2,221,378)</u>         |
| Total Shareholders' Equity                                                                                                                                            | <u>6,846,622</u>                        | <u>6,488,271</u>           |
| Total Liabilities and Shareholders'<br>Equity                                                                                                                         | <u>\$7,254,055</u>                      | <u>\$6,776,860</u>         |

BIO-VASCULAR, INC.  
STATEMENTS OF OPERATIONS

|                                                            | Three Months Ended<br>April 30,<br>(unaudited) |                  | Six Months Ended<br>April 30,<br>(unaudited) |                  |
|------------------------------------------------------------|------------------------------------------------|------------------|----------------------------------------------|------------------|
|                                                            | 1992                                           | 1991             | 1992                                         | 1991             |
| Net Sales                                                  | \$1,174,534                                    | \$902,714        | \$2,067,669                                  | \$1,610,509      |
| Cost of Sales                                              | <u>430,413</u>                                 | <u>386,167</u>   | <u>773,854</u>                               | <u>663,725</u>   |
| Gross Profit                                               | 744,121                                        | 516,547          | 1,293,815                                    | 946,784          |
| Operating Expenses                                         | <u>575,519</u>                                 | <u>480,570</u>   | <u>1,118,062</u>                             | <u>883,816</u>   |
| Income from Operations                                     | 168,602                                        | 35,977           | 175,753                                      | 62,968           |
| Other Income (Expense)                                     | <u>50,470</u>                                  | <u>(23,804)</u>  | <u>104,995</u>                               | <u>(46,659)</u>  |
| Net Income                                                 | <u>\$219,072</u>                               | <u>\$ 12,173</u> | <u>\$280,748</u>                             | <u>\$ 16,309</u> |
| Per Common Share Data:                                     |                                                |                  |                                              |                  |
| Net Income                                                 | <u>\$ .04</u>                                  | <u>\$ -</u>      | <u>\$ .05</u>                                | <u>\$ -</u>      |
| Weighted average number<br>of common shares<br>outstanding | 5,556,525                                      | 3,870,504        | 5,552,022                                    | 3,869,053        |

BIO-VASCULAR, INC.  
STATEMENTS OF CASH FLOW

|                                                          | Six Months Ended<br><u>April 30,</u><br>(unaudited) |                   |
|----------------------------------------------------------|-----------------------------------------------------|-------------------|
|                                                          | <u>1992</u>                                         | <u>1991</u>       |
| Cash flows used by operating activities                  | \$ 369,591                                          | \$(39,914)        |
| Cash flows from investing activities:                    |                                                     |                   |
| Purchases of fixed assets                                | (190,091)                                           | (43,253)          |
| Additions to intangibles                                 | (3,861)                                             | (1,477)           |
| Investments in Marketable Securities                     | <u>(2,173)</u>                                      | <u>-</u>          |
| Total cash used in investing activities                  | (173,466)                                           | (84,644)          |
| Cash flows from financing activities:                    |                                                     |                   |
| Proceeds from issuance of debt                           | -                                                   | 23,500            |
| Payments on debt                                         | -                                                   | (16,004)          |
| Proceeds related to the exercise of options and warrants | <u>77,603</u>                                       | <u>11,156</u>     |
| Cash provided by financing activities                    | <u>77,603</u>                                       | <u>18,652</u>     |
| Increase (decrease) in cash and cash equivalents         | 251,069                                             | (65,992)          |
| Cash and cash equivalents at beginning of period         | <u>879,098</u>                                      | <u>183,842</u>    |
| Cash and cash equivalents at end of period               | <u>\$1,130,167</u>                                  | <u>\$ 117,850</u> |

PART I. FINANCIAL INFORMATION CONTINUED

BIO-VASCULAR, INC.

NOTES TO FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended April 30, 1992 are not necessarily indicative of the results that may be expected for the year ending October 31, 1992. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report to Shareholders and in Form 10-K for the year ended October 31, 1991.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Sales<sup>1</sup> for the quarter ended April 30, 1992 were \$1,174,534, an increase of 30.1% over sales of \$902,714 for the quarter ended April 30, 1991. At the six months ended April 30, 1992 sales were \$2,067,669, 28.4% greater than sales of \$1,610,509 for the six months ended April 30, 1991.

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<sup>1</sup> During the quarter ended April 30, 1992, management of the Company undertook a review of the classification of its expenses, and as a result, decided to reclassify certain items of expense. These reclassifications were from accounts in general and administrative and selling expense, and specifically were: commission expense, product liability insurance, and some supplies and telephone expense. With the exception of commission expense, the reclassifications were made to cost of goods sold and have the effect of lowering the gross margin. Commission expense reduces sales as a result of the reclassification. These 1991 and first quarter 1992 expense amounts have been reclassified to conform to the presentation adopted with the quarter ended April 30, 1992.

The sales mix at the six months ended April 30, 1992 was 71% domestic and 29% international and was consistent with the quarter ended January 31, 1992. Over the last year the sales mix has shifted towards the larger domestic market. At the six months ended April 30, 1991 domestic sales accounted for 5% of total sales, while international sales were 41% of the total.

Domestic sales are up 56.3% in the quarter and 51.2% at the six months ended April 30, 1992 when compared to the quarter and six months ended April 30, 1991. International sales are down 7.6% in the quarter and 9.9% in the six months ended April 30, 1992 when compared to the same periods of the previous year. The Company attributes this apparent decrease in international sales to a change in the pattern of international sales which has resulted in timing differences between the same periods of this fiscal year when compared to the last fiscal year. The Company believes that this diverging international sales pattern is a result of the Company's decision to discontinue "end of the quarter" international sales promotions. The old international sales pattern displayed low valleys in the first month of a quarter and high peaks in the third month of a quarter; representing distributor anticipation of and response to these "end of quarter" incentives. Preliminary indications show a developing pattern of international sales which displays reduced peaks and valleys. The Company believes that there is a greater recognition level for its products, which has subsequently reduced the need for incentive programs of the type it had used. As an example of this changing pattern, at the seven months ended May 31, 1992, international sales are up 8.3% when compared to the seven months ended May 31, 1991. As the new international sales pattern is just developing, more time must pass before it can be firmly established.

Sales of Flo-Rester, Peri-Guard, and the Dardik Biograft are up 26.8%, 37.7%, and 1.6%, respectively, and sales of the Robicsek Vascular Probe are up 433.3% at the six months ended April 30, 1992 when compared to the six months ended April 30, 1991. Due to the fact that there was only one month of sales of the Probe at April 30, 1991, and there were six months of sales of the Probe at April 30, 1992, a more meaningful measure of the Robicsek Vascular Probe's growth can be illustrated by comparing an average month's sales for the seven months during which the Probe was sold in the fiscal year ended October 31, 1991, and an average month's sales for the six months in which the product was sold this fiscal year: the six months ended April 30, 1992. This comparison still shows a substantial sales growth for the Robicsek Vascular Probe, with an average month's sales (time frames defined above) increasing 144.3%.

The Company developed a new soft-tissue patch in fiscal 1991, identified as Supple Peri-Guard. Sales of this product, which is still not available for sale in the United States, were immaterial in the quarter and six months ended April 30, 1992.

Sales of the Bioflow Small Diameter Graft, which is not approved for sale in the United States, are down 21.1% at the six months ended April 30, 1992 when compared to the same period last year. The Company attributes this decrease in sales to the changing pattern of international sales described previously. With regard to the Bioflow Small Diameter Graft, the Company also continues to believe that until there is substantial longer-term data available on the performance of this product, its market will continue to be a limited market, and as such is sharply sensitive to changes in the environment in which it is sold, in the distribution network through which it is sold, and to the timing of the placement of orders. By way of illustrating this sensitivity and again giving early indications of a changing international sales pattern, sales of the Bioflow Small Diameter Graft are down 10.5% at the seven months ended May 31, 1992 when compared to the seven months ended May 31, 1991, a substantial improvement compared to April 30, 1992 when sales of this product were down 21.1%.

In March of 1992, the Company received approval from the FDA to begin clinical trials of the Bioflow Small Diameter Graft in the United States. This approval allows two investigative sites and a total of fifteen (15) implants. The process of regulatory approval for a product such as the Bioflow Small Diameter Graft is long (a probable minimum of three years) and arduous. The FDA requires this rigorous testing to ensure the benefit and propriety of critical products such as the Bioflow Small Diameter Graft before they can enter the market in the United States.

Sales of the Company's products are a function of demand, and while the Company believes its products and the technology supporting its products will be viable for several decades, the highly technical nature of the medical industry and the considerable research in this industry make competing technologies possible. The Company or its competitors may develop and successfully bring to market new technologies which will reduce or eliminate demand for the Company's existing technologies and products. However, given the rigorous regulatory environment to which the Company's products and those of its competitors are subjected, management believes it will generally take a number of years to significantly reduce or eliminate the demand for its existing products.

The gross margins<sup>2</sup> for the quarters ended April 30, 1992 and 1991 were 63.4% and 57.2%, respectively. The gross margin for the six months ended April 30, 1992 was 62.6% and compares to a gross margin of 59.4% at the six months ended April 30, 1991. The improvement in the Company's gross margin arises from two sources.

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<sup>2</sup>See footnote 1 on page 6.

First, the Company is still making gains in production efficiency, especially in the manufacturing of the Dardik Biograft. While the Company is still selling the Dardik Biograft from inventory layers produced before much of this efficiency was achieved, the effect of some of these gains flows to the gross margin in the form of positive variances when measured against the standard cost. Secondly, some of the Company's products are being produced at levels that are beginning to show positive production volume variances. However, at this time, most of the gain due to positive production volume is currently balanced out by other production factors. The Company believes that the gross margin will continue, in the long term, to show some improvement as the continuing efficiencies of the Dardik Biograft production flow through the cost of goods sold, and as the relatively stable gross margins of its other products are positively impacted by increasing levels of production. The Company has experienced, and may still experience small shifts in the gross margin percentage as a result of shifts in the sales mix, but these shifts would not be expected to have a material effect on the gross margin.

The Company pursuant to certain agreements currently pays royalties on a number of its products at various percentage rates. These agreements expire at varying dates. All royalties are calculated as a percentage of net sales and are classified as a part of the cost of sales. The Company believes that its current gross margins can be maintained or improved, irrespective of the royalties.

Operating expense<sup>1</sup> in the quarter ended April 30, 1992 was \$575,519, an increase of 19.7% when compared to the quarter ended April 30, 1991. However, operating expense as a percent of sales declined from 53.2% in the quarter ended April 30, 1991 to 49.0% in the quarter ended April 30, 1992. Operating expense in the six months ended April 30, 1992 was \$1,118,062 compared to operating expense of \$883,816 in the quarter ended April 30, 1991. This is an increase of 26.5% in dollars, but when operating expenses in the six months ended April 30, 1992 and 1991 are measured as a percent of sales, they are essentially the same. Operating expense as a percent of sales for the six months ended April 30, 1992 and 1991 was 54.1% and 54.9%, respectively. The increase in dollars of operating expense represents a general "ramping-up" related to the increased level of business activity. The increases are across all categories of operating expense, both general and administrative and selling expense.

Operating income for the quarter ended April 30, 1992 was \$168,602, a 368.8% increase over operating income of \$35,977 for the quarter ended April 30, 1991. Operating income for the six months ended April 30, 1992 was \$175,753 compared to operating income of \$62,968 at April 30, 1991, a 179.1% increase.

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<sup>1</sup>See footnote 1 on page 6.

The Company had significant interest income and no interest expense in the quarter and six months ended April 30, 1992. This is a result of the Company's successful warrant call in August of 1991, which netted \$4,455,433. The Company then used some of the proceeds of this warrant call to pay off all their debt, including a \$1,000,000 note owing to Meadox Medicals, Inc. with interest at the prime rate, and various equipment notes with interest rates up to 12.5%. After the payment of all its debt, the Company had approximately \$3,500,000 in cash remaining, the majority of which was and is invested in U.S. Government securities. During the quarter and the six months ended April 30, 1991, the Company incurred interest expense as a result of the notes mentioned above. Interest income at the quarter and six months ended April 30, 1992 was \$50,470 and \$104,995, respectively. Interest expense (net of interest income) for the quarter and six months ended April 30, 1991 was \$23,804 and \$46,659, respectively.

The Company had net income of \$219,072, \$.04 per weighted average common share outstanding for the quarter ended April 30, 1992. This compares to net income of \$12,173, less than \$.01 per weighted average common share outstanding at April 30, 1991. For the six months ended April 30, 1992 net income was \$280,748, or \$.05 per weighted average common share outstanding in the period. This is an increase of 1621.4% over net income of \$16,309, which was less than \$.01 per weighted average common share outstanding at April 30, 1991. Increased sales, improved margins, the decrease in operating expense as it relates to sales, and interest income, all contributed to the increase in net income.

#### Liquidity and Capital Resources

Cash and cash equivalents and marketable securities (U.S. Treasury bills and notes) together, have increased by \$253,242 at April 30, 1992 to \$1,130,167 and \$2,610,260, respectively, when compared to cash and cash equivalents of \$879,098 and marketable securities of \$2,608,087 at October 31, 1991.

Working capital at April 30, 1992 was \$5,063,925 compared to working capital at October 31, 1991 of \$4,751,277. The current ratios at April 30, 1992 and October 31, 1991 were 13.4 to 1 and 17.5 to 1, respectively.

Accounts receivable at April 30, 1992, net of allowance for doubtful accounts of \$20,000, had increased to \$762,007 from \$657,269 net of the same allowance at October 31, 1991. The increased level of accounts receivable is a direct result of the Company's increasing level of sales. The Company has had very little bad debt, and believes this will continue to be the case.

Inventory has increased to \$837,651 at April 30, 1992 from \$761,455 at October 31, 1991. This increase in inventory is representative of the Company's efforts to maintain inventory levels of finished goods consistent with expected levels of demand.

Management of the Company believes that its current working capital of \$5,063,925 at April 30, 1992, along with anticipated positive cash flow from operations of this next fiscal year and future fiscal years, will provide the cash required to meet the Company's operational needs through the end of this fiscal year and the foreseeable future.

The Company has purchased \$190,091 of fixed assets since October 31, 1991. Most of this expenditure has been for the computer system, general use software, and manufacturing and accounting software. The Company is already seeing early benefits in efficiency from this new system. While the Company is always prepared to acquire capital assets, e.g., new products and/or new technologies that would contribute to shareholder value, it has made no such commitment at this time.

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PART II. OTHER INFORMATION

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ITEM 1. Legal Proceedings.

None

ITEM 2. Changes in securities.

None

ITEM 3. Defaults upon senior securities.

None

ITEM 4. Submission of matters to a vote of security holders.

None

ITEM 5. Other information.

None

ITEM 6. Exhibits and reports on Form 8-K.

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIO-VASCULAR, INC.

*M. Karen Gilles*

June 10, 1992

By

M. Karen Gilles  
Vice President of Finance/CFO  
(Principal Financial Officer)